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38	A	B	C	D	E
39	A	B	C	D	E

PRACTICE QUESTIONS

Chartered Insurance Institute (CII)

SBFGK8R4

LF1 - Life and pensions foundation

EDITION

Demo

QUESTIONS

9

FORMAT

Limited Edition PDF

Before you begin

What this is

9 practice questions for Chartered Insurance Institute (CII) **SBFGK8R4**, each with its answer key and an explanation. Answer a question before you read its key — the explanation is worth more once you have committed.

If something looks wrong

Send us three things and we will check it:

- the exam code, **SBFGK8R4**
- the question number
- the email address on your order

Write to **support@mometrix.net**. We reply within one business day.

QUESTION 1 MULTIPLE CHOICE

Which two factors should a client consider when deciding between a stakeholder pension and a personal pension for retirement planning? (Choose two.)

- ☒ **A** The client's employment status
- ☒ **B** The level of transfer values available
- ☐ **C** The provider's credit rating
- ☐ **D** The number of product providers in the market

ANSWER A • B

WHY Employment status can influence access to, and suitability of, workplace pension arrangements, while transfer values from existing pensions can be relevant when consolidating retirement savings. A provider's credit rating and market concentration are not primary suitability factors for this comparison.

QUESTION 2 MULTIPLE CHOICE

Which two statements about the UK tax treatment of pension contributions are correct? (Choose two.)

- ☒ **A** Pension contributions may receive tax relief subject to the applicable rules and limits
- ☒ **B** Income and gains within a pension fund are generally exempt from UK income tax and capital gains tax
- ☐ **C** Pension benefits are always paid tax-free
- ☐ **D** Tax relief is available regardless of whether the individual pays income tax

ANSWER A • B

WHY Eligible pension contributions can receive tax relief, subject to statutory rules and limits. Income and gains arising within a pension fund are generally exempt from UK income tax and capital gains tax. Pension benefits are not always tax-free, and individuals who do not pay income tax may not receive tax relief.

QUESTION 3

TRUE FALSE

A life assurance policy can be arranged to pay a lump sum following the death of the life assured, subject to the policy terms and conditions.

☒ **A** True☐ **B** False**ANSWER A**

WHY This is a core function of life assurance: it provides a death benefit, usually a lump sum, to beneficiaries or an estate after the life assured dies, subject to the policy terms and underwriting requirements.

QUESTION 4

SINGLE CHOICE

What is the primary purpose of an individual pension?

☐ **A** To provide income replacement if the policyholder is unable to work☒ **B** To provide a tax-efficient way of building a fund for retirement☐ **C** To insure a mortgage against the life assured's death☐ **D** To provide a guaranteed lump sum on diagnosis of a specified illness**ANSWER B**

WHY An individual pension is designed primarily to build retirement benefits through contributions, investment growth and tax treatment. Income-protection, mortgage life cover and critical-illness cover are forms of protection insurance, not individual pensions.

QUESTION 5

SINGLE CHOICE

Which feature is generally associated with a defined benefit pension scheme?

- ☐ A The value of the retirement benefits is based mainly on the member's contributions and investment returns
- ☒ B The retirement benefits are linked to factors such as the member's salary and service
- ☐ C The member must use the provider's default fund
- ☐ D The benefits can be withdrawn only as a single tax-free lump sum

ANSWER B

WHY A defined benefit scheme normally calculates retirement benefits using a formula that can include the member's salary and years of service. A defined contribution pension instead depends on contributions, charges and investment performance.

QUESTION 6

SINGLE CHOICE

What is the usual tax treatment of a lump-sum death benefit paid from a registered pension scheme?

- ☐ A It is always subject to income tax at the recipient's marginal rate
- ☒ B It is normally free of income tax when paid within the applicable pension tax rules
- ☐ C It is always subject to capital gains tax
- ☐ D It is taxed in the same way as employment income

ANSWER B

WHY A lump-sum death benefit paid from a registered pension scheme is generally paid free of income tax when it falls within the applicable pension tax rules. The precise treatment can depend on the scheme, the recipient and how the payment is made.

QUESTION 7

SINGLE CHOICE

Why is it important for an adviser to gather information about a client's existing pension arrangements?

- ☒ **A To identify existing benefits, charges and possible transfer issues before making a recommendation**
- ☐ B To determine the client's eligibility for state benefits only
- ☐ C To replace the client's existing pension automatically
- ☐ D To avoid considering the client's retirement objectives

ANSWER A

WHY Reviewing existing pension arrangements helps the adviser understand the client's current provision, identify relevant features and charges, and assess whether a proposed recommendation or transfer is suitable. It does not justify automatically replacing an arrangement or ignoring the client's objectives.

QUESTION 8

SINGLE CHOICE

What does diversification mean in the context of an investment portfolio?

- ☐ A Holding assets that are affected by the same market factors
- ☒ **B Spreading investments across different assets or asset classes to reduce concentration risk**
- ☐ C Investing only in the asset with the highest expected return
- ☐ D Keeping all investments in cash equivalents

ANSWER B

WHY Diversification involves spreading money across different investments or asset classes so that exposure to any one investment or risk factor is reduced. It does not guarantee against loss and does not mean selecting only the highest-returning asset.

QUESTION 9

SINGLE CHOICE

Which statement best describes a term assurance policy?

- ☒ **A** It normally provides cover for a specified period and pays only if the life assured dies during that period
- ☐ **B** It provides a cash value that is guaranteed to increase throughout the policy term
- ☐ **C** It pays a regular income after the life assured reaches a specified retirement age
- ☐ **D** It can only be used to protect a mortgage

ANSWER A

WHY Term assurance provides death cover for a specified period. The benefit is payable if the life assured dies during the policy term, provided the policy conditions are met. It is not inherently a savings product and can be used for many protection purposes, not only mortgages.